

Freedom Budget 2007

Lower Spending, More Choices, Better Results

JOSEPH COLETTI

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EXECUTIVE SUMMARY: FREEDOM BUDGET 2007 AT A GLANCE

Freedom Budget 2007 (FB07) continues the tradition of John Locke Foundation alternative budgets that revise the governor's Continuation and Expansion budgets. If an item is not included here, the author accepts the governor's proposal. That includes all pay raises for state employees and some tax changes. The specific recommendations detailed in this report are made as additions or subtractions from Gov. Mike Easley's budget.

The net General Fund savings for fiscal year (FY) 2007-08 of \$1.0 billion is not as large as in previous alternative budgets, but this includes some items of significantly higher spending than Gov. Easley has proposed:

- \$172 million to transfer one-third of the county share of Medicaid to the state, with elimination in FY 2009-10.
- \$50 million more than the governor's \$3.5 million expansion to assist in transforming the state mental health system.
- \$147 million to provide all state employees with a five-percent raise instead of the governor's proposed 2.5 percent increase for non-teachers.
- \$150 million to cover a larger portion of the unfunded liability for retired state employees' health benefits.

This \$563 million in suggested new spending is more than offset by \$1.57 billion in proposed savings throughout state government, such as:

- Redirecting \$46 million in projected spending on non-teaching positions in public schools to fund teacher pay raises.
- Increasing in-state tuition at UNC campuses to cover 35 percent of costs, up from 21 percent. Combined with reductions in taxpayer funding for the UNC Hospitals and research overhead, the plan calls for immedi-

ate savings of \$246 million in the university system.

- Reforming the state Medicaid program to bring its costs in line with the Southeastern U.S. average within two years, saving \$166 million in FY 2007-08. Changes would be made in eligibility, coverage, and reimbursement policies.
- Converting the Smart Start program into a state income-tax relief package for preschool expenses and education.
- Offsetting the federal tax penalty for individuals who do not receive health insurance through their employer with a \$250 per person tax credit, which would be worth \$1,000 for a family of four.
- Eliminating roughly \$270 million in subsidies for corporations in dozens of separate programs and tax credits, including an 83-percent reduction in General Fund support for the Commerce Department.
- Offsetting more than \$23 million in expenses for state-run enterprises and attractions such as museums by charging higher user fees and soliciting more private donations.

HIGHWAY FUNDS

Outside the General Fund, *FB07* recommends \$138 million in savings in the governor's FY 2007-08 transportation budget, including elimination of subsidies for rail, reductions in paving of rural secondary roads, and a two-thirds reduction in contingency construction money controlled by the Speaker of the House and the President Pro Tempore of the Senate. These savings are combined with \$172 million saved by ending the diversion of funds from the Highway Trust Fund to finance higher spending on road and bridge maintenance (\$281 million), urban loop construction (\$66 million), and other road construction (\$204 million).

2007-09 General Fund Budgets: Easley vs. *Freedom Budget 2007* (\$ Millions)

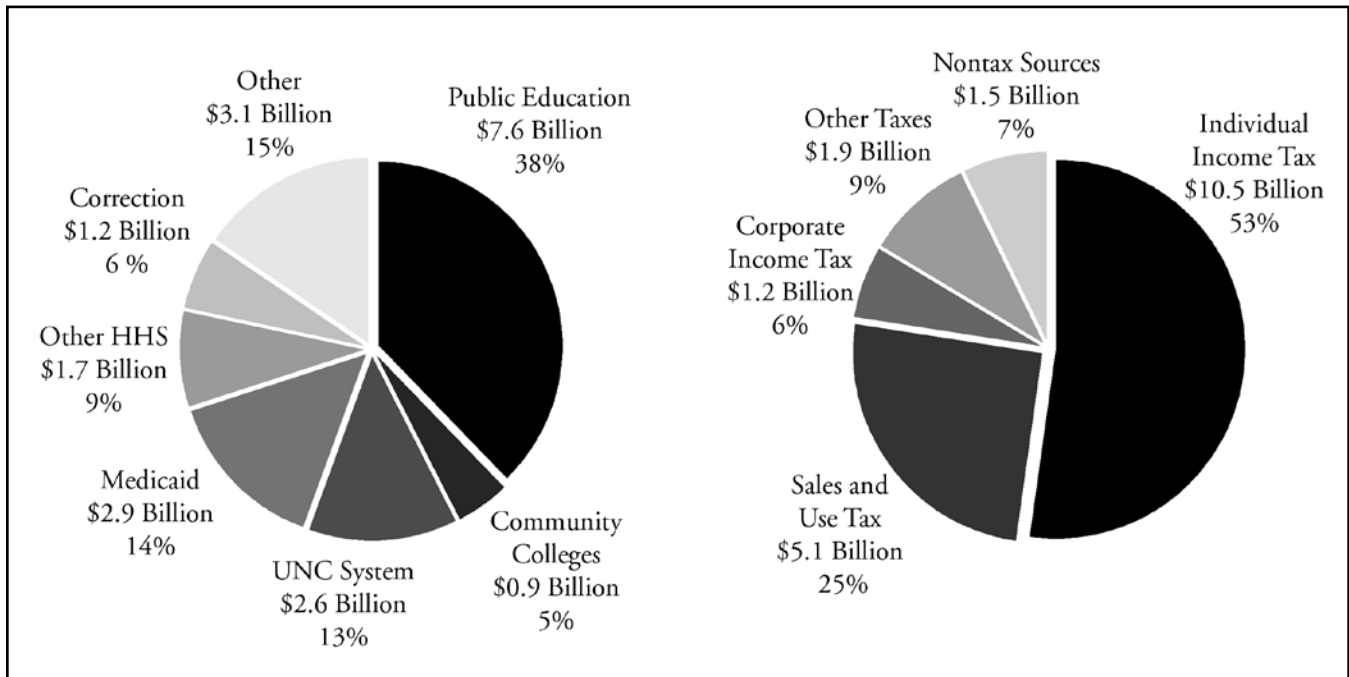
Spending Category	Authorized 2006-07	Easley 2007-08	YoY % Change	Easley 2008-09	YoY % Change	FB07 2007-08	YoY % Change	FB07 2008-09	YoY % Change
Public Education	\$ 6,719.75	\$ 7,603.20	13.1%	\$ 7,663.85	0.8%	\$ 7,259.40	8.0%	\$ 7,301.11	0.6%
Community Colleges	831.46	915.79	10.1%	912.12	-0.4%	836.42	0.6%	777.81	-7.0%
UNC System	2,249.05	2,634.71	17.1%	2,739.94	4.0%	2,388.38	6.2%	2,409.59	0.9%
Health & Human Services	4,232.15	4,592.07	8.5%	4,876.03	6.2%	4,261.87	0.7%	4,536.80	6.5%
Agriculture	54.62	67.13	22.9%	61.31	-8.7%	39.73	-27.3%	39.90	0.4%
Commerce	129.66	115.31	-11.1%	94.76	-17.8%	22.07	-83.0%	22.45	1.7%
Environment/ Natural Resources	283.30	300.13	5.9%	301.71	0.5%	276.19	-2.5%	275.35	-0.3%
Labor	15.05	16.59	10.3%	16.59	0.0%	13.91	-7.6%	13.91	0.0%
Correction	1,083.40	1,217.39	12.4%	1,237.82	1.7%	1,198.16	10.6%	1,216.29	1.5%
Crime Control/ Public Safety	41.11	47.53	15.6%	43.05	-9.4%	37.95	-7.7%	33.49	-11.8%
Justice	83.40	96.38	15.6%	92.53	-4.0%	92.89	11.4%	89.23	-3.9%
Juvenile Justice	142.33	161.61	13.5%	165.81	2.6%	154.16	8.3%	158.36	2.7%
Courts/Judicial	468.18	524.85	12.1%	532.39	1.4%	522.28	11.6%	529.70	1.4%
Other Departments	392.18	428.16	9.2%	421.55	-1.5%	381.90	-2.6%	381.87	0.0%
Debt Service	570.91	621.41	8.8%	656.92	5.7%	512.81	-10.2%	578.72	12.9%
Other Items/Reserves	1,363.06	660.20		621.18		1,001.33		962.32	
Subtotal—Operating	18,659.62	20,002.47	7.2%	20,437.58	2.2%	18,999.45	1.8%	19,326.88	1.7%
Capital/R&R	206.34	63.88		0.00		63.88		0.00	
Subtotal—GF Budget	\$ 18,865.96	\$ 20,066.35	6.4%	\$ 20,437.58	1.9%	\$ 19,063.33	1.0%	\$ 19,326.88	1.4%

TAXES

In addition to finally ending the temporary sales-tax and income-tax increases from 2001 and thereby saving taxpayers \$300 million, *Freedom Budget 2007* includes a comprehensive tax reform proposal for North Carolina. This proposal would end income tax preferences and biases worth \$317 million in FY 2007-08, while providing \$811 million in broad-based tax relief to individuals and businesses:

- Over two years, the plan would eliminate the top individual income tax brackets, creating a flat marginal rate of 6.0 percent. This would save taxpayers \$817 million in FY 2008-09.
- The corporate income-tax rate would fall from 6.9 percent to 6 percent, saving \$91 million in FY 2008-09.
- Families would get a refundable Smart Start tax credit of \$200 per preschool child, saving them \$70 million. They could also deduct the first \$1,500 of education spending or saving, worth \$159 million.
- The plan would reinstate refundable tax credits for long-term care insurance worth \$6 million and would add a new, \$250 refundable credit for individual purchases of health insurance worth \$130 million.

Governor's Proposed Budget
General Fund Sources and Uses, FY 2007-08



INTRODUCTION

During Gov. Easley's first term, he managed to restrain state government spending growth. The economic slowdown and resulting fall in state tax revenues provoked a fiscal crisis that demanded slower spending even with higher sales and income tax rates. Spending in the first three years of the Easley administration (FY 2002 through FY 2004) increased just 7.6 percent, or 2.5 percent per year.

As the economy and tax collections recovered, however, Easley and the General Assembly were reluctant to allow the temporary taxes to expire. Instead, they used the higher revenues to expand spending on government operations over the next three years (FY 2005 through FY 2007) by an average of 7.9 percent per year, or 25.8 percent overall.

Rapid growth in government revenue gives politicians grand ideas about the good they can do with just a few hundred thousand dollars for a museum, sporting event, or nonprofit organization. Others offer multi-million-dollar expenditures to promote economic development, better schools, or more access to health care. Once accepted into the budget, however, these great ideas are rarely evaluated to see if they are accomplishing their aims or even if the

aims are still appropriate.

Such steps are needed because state programs often do not accomplish their objectives, have the wrong objective, or have muddled or contradictory objectives. The lack of clear objectives is made clear in the results-based information accompanying Gov. Easley's proposed budget. The Department of Public Instruction provides no information on the performance of students in public schools, but it provides four different measures of teacher credentials. The corrections system measures the number of people in various programs but not the effectiveness of those programs in keeping inmates from committing future crimes. And Gov. Easley's office tracks the number of press releases (they have been increasing) as a sign of communication.

A case of the wrong objective is Certificate of Need (CON) regulation. Measures track the number of applications and requests received, but not the number approved or the effects on prices as a result of these regulations.

As these examples suggest, government measures inputs and short-term costs, which makes it difficult to determine whether programs are effective. Some lack of real result measurement is due to the

activities government undertakes (public safety), but much of it is simple inertia.

Underpinning the practical considerations of whether government programs can meet their objectives, and tied to the more abstract question of whether the defined objectives are correct or legitimate, are nine constitutionally grounded principles the John Locke Foundation has long used to evaluate state government. These are: 1) reform entitlements; 2) redirect spending to higher priorities; 3) require more user responsibility; 4) revive free enterprise; 5) reshape state/local government relations; 6) reorganize state government; 7) restore civil society; 8) remove advocacy and race-based programs; and 9) reduce tax biases. Each recommendation fits within one of these nine principles.

The alternative state budget we propose in this report lists 159 recommendations for savings in the base budget, 99 changes to Gov. Easley's 2007-09 expansion budget, and 33 changes to the governor's revenue proposals. Recommended General Fund savings total over \$1.0 billion in FY 2007-08 and \$1.1 billion in FY 2008-09. These savings would finance a tax reform package phasing in \$1 billion in growth-enhancing tax reductions as well as new spending to take over the county share of Medicaid and to increase state employee salaries 5.0 percent. This proposal would also set aside \$100 million each year to cover future health benefits of retired state employees and another \$100 million each year for the Savings Reserve Account (Rainy Day Fund).

PRINCIPLES THAT WORK

Constitutional Authority

In the past this document has noted nine principles of fiscal responsibility derived from the North Carolina State Constitution. Article 1 of that document is a "Declaration of Rights," foremost of which (Section 1) is the "self-evident [truth] that all persons...are endowed by their Creator with certain inalienable rights; that among these are life, liberty, *the enjoyment of the fruits of their own labor*, and the pursuit of happiness."

The fact that people have an inherent right to "the fruits of their own labor" implies that taxation should be kept as low as possible.

Section 34 holds, "Perpetuities and monopolies are contrary to the genius of a free state and shall not be allowed." In case it was not clear from the language of Section 1, this can be interpreted to mean that programs should not grant exclusive franchises or limit consumer choice to government-run service providers. This concept applies to public television, radio, or education as much as to infrastructure such as ports and railroads.

Taxes are to be applied "in a just and equitable manner, for public purposes only," according to Article 5, Section 2. This principle supports eliminating tax credits under the William S. Lee Act and others. It also further guides policy to ensure that the funds spent by the government do not confer an advantage to a particular person or group.

Article 1, Sections 35 and 36 note, "A frequent recurrence to fundamental principles is absolutely necessary to preserve the blessings of liberty" and "The enumeration of rights in this Article shall not be construed to impair or deny others retained by the people." These sections confirm the limited role the state government should play in the daily lives of North Carolina's people. As stated in the 2003 *Freedom Budget*, "State government, in other words, is not empowered to do whatever it wants to do. Rather, it is constrained to perform its constitutional functions — to maintain law and order and to ensure the availability of true public goods — and otherwise to leave North Carolinians alone to pursue their own interests and solve their own problems without state encroachment."

Principled Guidelines

The recommendations of *Freedom Budget 2007*, based on these sections of the state constitution, fall into nine categories which we call the "nine R's."

- **Reform entitlement programs (save \$541 million in FY 2007-08)** — Government may have a legitimate role to provide assistance to the poor, but entitlements have metastasized into aid programs for the middle class, paying for nursing home stays and daycare for the parents and children of affluent individuals. *FB07* restores meaning to the "safety net" concept.

- **Redirect spending to higher-priority issues (spend \$56 million more)** — Besides the general rules of budgets; North Carolina has an additional obligation under its constitution to prioritize spending. For example, *FB07* draws on research showing that teachers are the most valuable school employees. To improve student education, the state should shift spending from teacher assistants, assistant principals and non-educational staff in public schools to classroom teachers.

- **Require more user responsibility (save \$271 million)** — There is no right, enumerated or otherwise, for state residents to receive government-provided art museums, aquariums, or zoos. If anything, state funding of these institutions subsidizes quality of life for those who live nearby. As long as the state provides these services, it should seek to have more of the costs defrayed by users through admission fees, donations, and other revenues.

More important to the budget is for community college and in-state university students to pay a larger portion of the costs for their education. Current tuition policy distorts demand for public universities versus private universities, acts as a regressive subsidy paid by lower income families to college students who generally come from higher income families, and distorts the incentive for students to obtain their degrees in four years.

- **Revive free enterprise (save \$179 million)** — European countries have learned from Ireland, which has moved from having the second lowest per-capita income in the EU in 1987 to the second highest in 2001, that low overall tax rates attract investment. Public-policy research on economic development in states affirms this. North Carolina officials, however, still believe it is better to offer free land, tax breaks, and other incentives for individual companies or industries than to create a positive environment for all businesses with low tax rates, an educated workforce, and well-maintained infrastructure. The absurdity of this is probably

best illustrated in the continued hesitation of automobile manufacturers to locate a factory in North Carolina despite generous incentive packages offered by the state officials.

- **Reshape the state/local government relationship (spend \$255 million more)** — North Carolina is the last state to require counties to pay a fixed percentage of Medicaid costs. As a result, counties must devote a rapidly growing share of their budgets to Medicaid expenses and those that can least afford it face the greatest burden. *FB07* recommends the state take back the county share by 2010, beginning in FY 2007-08. This will make funds available at the county level to take on more responsibility for building the roads, schools, and other infrastructure needs that are critical to the vitality of local economies without the need for new local-option taxes.

- **Reorganize state government (save \$128 million)** — A number of states have taken steps to make their government planning and operations more efficient. North Carolina has tried some experiments in this area, building on successes and wisely abandoning some efforts.

The John Locke Foundation has illustrated the needless complexity of the executive branch's organization chart. This budget once again recommends combining the Department of Revenue, State Controller and three other agencies in a single Department of Finance; rolling up Correction, Juvenile Justice, and Crime Control and Public Safety in an overarching Department of Public Safety; and making other changes to clean up the spaghetti bowl of responsibility. The questions over State Treasurer Richard Moore's fundraising from money-management firms point again to the need for an appointed cabinet.

- **Restore civil society (save \$34 million)** — Nonprofits provide many necessary services and meet a need as a third sector between the market and the government. When govern-

ment steps in, it creates a false impression that the issue needs no private funds, crowding out charitable donations. Government support of a nonprofit also makes the organization less accountable and may undermine its original mission.

- **Remove advocacy, waste, and race-based programs (save \$37 million)** — Two sections of Article 1 further undergird this item. Section 2 states that “all government...is instituted solely for the good of the whole,” which means policies designed to benefit a specific group or provide state support for group advocacy are improper. This principle also includes state funding of highly divisive practices. Section 19 bars “discrimination by the state because of race, color, religion, or national origin.” Whether the state calls the recipients of its money “historically underutilized businesses” or minority dentists, set-asides violate this principle and should end.
- **Reduce biases in the tax code (\$23 million lower revenues)** — The tax code is riddled with subsidies to corporations for what the state sees as good behavior. Tax credits are provided for opening an internet data center, training workers, spending on research and development, purchasing dry-cleaning equipment, and more. While trying to improve corporate behavior, the tax code penalizes responsible individual behavior. Taxes and subsidies limit consumer choice in education and discourage personal responsibility for their health and long-term care. In such cases, state tax credits can effectively reduce biases in the rest of the tax system against worthwhile savings or worthwhile capital investments in education and health. Reports by the John Locke Foundation have made the case for reforming the entire tax system to remove targeted tax breaks.

APPLYING THE PRINCIPLES

These principles have appropriately remained consistent in JLF-prepared state budgets for the last

decade. Where quick action is possible, items are provided in the detailed section of this report. Other items require federal approval or simply take longer to implement. Three examples follow below.

Medicaid

States as diverse as West Virginia, Missouri, and Utah have taken advantage of greater flexibility from the federal government in tailoring their Medicaid programs. Until North Carolina focuses on real reform of Medicaid (long-term care, disease management, and benefit structure), legislators are left with the prospect of providing fewer optional services, which are among the broadest in the region, and lowering reimbursement rates, which are among the highest in the region, to bring the program in line with other states.

This report also includes recommendations to restore a tax credit for long-term care insurance to promote personal responsibility, eliminate another proposed expansion, and revert program costs to the state from the counties, which have no control over policy.

The related Health Choice program, North Carolina’s health care program for children in families with modest income, has pulled people from the private market, which suggests it does not address a market failure. The shortfall in federal money for Health Choice illustrates a significant problem with basing state policy on the ability to “draw down” money from other states through the federal government — if every state follows the same rational policy, they deplete the federal treasury. Financial games of this sort take money from citizens twice, require significant additional state spending, and make it difficult for the state to argue real need when the national budget shows large deficits.

State Employee Benefits

The state retirement plan is generally considered a well-managed enterprise, but future retirement benefits are a large contingent cost for the state. North Carolina has more than enough money set aside to meet the pension requirements of retirees, but moving current employees to a defined contribution system will alleviate some of the temptation

to overpromise benefits or to raid future payments to the pension funds. This is particularly important given the \$23.8 billion unfunded liability for state retiree health benefits. High-deductible health insurance policies tied to health savings accounts (HSAs) would make retiree health benefits a defined contribution item while also lowering the cost to insure current state employees and their families.

Privatization

The state's ancient payroll system is a stunning case of how the state government shortchanges itself when it tries to handle too many services in-house. Each agency has its own information technology staff, and many systems within agencies as well as across them cannot share information. Some agencies have their own printing shops, while others manage their own fleets of vehicles. Coordinating activities across state agencies and creating a central system that would seek competitive bids on services and look for buildings and other assets to sell (with covenants as necessary) could help to lower government costs. North Carolina should also sell all assets and inventory of the Alcohol Beverage Control system, with proceeds going to local governments.

CONCLUSION

When introducing his proposed budget for the 2007-09 biennium, Gov. Easley said the final quarter-cent sales tax and eight-percent personal income-tax rate could both be removed, but the next governor would then face a fiscal shortfall. Of course, there are two ways to avoid fiscal problems — raising taxes and controlling spending. By continuing to spend nearly every dollar of tax revenue available,

Gov. Easley has really chosen neither, so his successor will still face a choice of raising taxes or reducing spending, or both (as happened in each of the last two recessions).

The Tax Foundation's latest report on state and local taxes shows that North Carolina's temporary taxes have increased the tax burden to an expected 11 percent of personal income in 2007 from 10.1 percent in 2001. In the process, the state has gone from having the 33rd highest tax burden in the nation to the 19th highest burden. In 2001, North Carolina had a lower tax burden than Georgia and nearly the same burden as South Carolina. This year, state and local taxes in South Carolina will take 10.7 percent of income, and in Georgia, 10.3 percent.

Private gross domestic product, employment, and per-capita personal income in the state have all grown slower than the national and regional averages since 2000. This relatively weak performance may not be due to the state's excesses of spending and taxing, but it should give legislators pause before they consider offering more money for business recruiting incentives. Formerly socialist governments in Eastern Europe and high-tax New England states are moving to low, flat tax rates to improve their economic growth. States with which North Carolina most directly competes have lower taxes.

If our elected officials are as committed to helping the state's economy as they say, they should consider directing spending to infrastructure needs and lowering the tax burden at the state and local levels. This alternative budget and the earlier report, "A Better Bargain: Meeting North Carolina's needs without a \$1 billion tax hike," together provide a roadmap to achieve these goals.

Appendix A: Line-Item Recommendations

EDUCATION — Continuation and Expansion Budgets

Governor's Proposal	FY 2007-08	YoY % Change	FY 2008-09	YoY % Change
Public Education	\$7,603,203,498		\$7,663,846,464	
Community Colleges	\$915,790,652		\$912,122,495	
UNC System	\$2,634,710,710		\$2,739,935,347	
TOTAL EDUCATION	\$11,153,704,860	+13.8%	\$11,315,904,306	+1.5%
Locke Foundation Revisions	FY 2007-08		FY 2008-09	
Public Education	\$(343,802,185)		\$(362,741,372)	
Community Colleges	\$(79,371,542)		\$(134,307,675)	
UNC System	\$(246,330,216)		\$(330,346,025)	
JLF: NET CHANGE	\$(669,503,943)		\$(827,395,072)	
Locke Foundation Total	FY 2007-08		FY 2008-09	
Public Education	\$7,259,401,313		\$7,301,105,092	
Community Colleges	\$836,419,110		\$777,814,820	
UNC System	\$2,388,380,494		\$2,409,589,322	
JLF: TOTAL EDUCATION	\$10,484,200,917	+7.0%	\$10,488,509,234	+0.0%

Public Education

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
Non-Teaching Positions	Cut 5%; Make Block Grant	\$(46,287,177)	R	\$(46,791,558)	R	Redirect to Priorities
School Building Admin	Cut asst principal funds 15%	\$(13,485,000)	R	\$(13,485,000)	R	Redirect to Priorities
Teacher Assistants	Transfer 25% to Fund Teacher Salaries	\$(117,479,986)	R	\$(118,644,026)	R	Redirect to Priorities
Central Office Admin	Reduce GF Approp. 10%	\$(11,197,884)	R	\$(11,227,884)	R	Redirect to Priorities
Mentor Teachers	End GF Appropriation	\$(8,100,140)	R	\$(8,100,140)	R	Redirect to Priorities
Schools Attuned Prog.	End GF Appropriation	\$(520,911)	R	\$(520,911)	R	Redirect to Priorities
NC Network	End GF Appropriation	\$(312,625)	R	\$(312,625)	R	Redirect to Priorities
Teacher Certification	End GF Appropriation, Convert to performance pay	\$(3,274,500)	R	\$(3,274,500)	R	Redirect to Priorities
Teacher Cadet Program	End GF Appropriation	\$(121,500)	R	\$(121,500)	R	Redirect to Priorities
Central DPI Administration	Reduce GF Approp. 5%	\$(76,140,700)	R	\$(76,141,954)	R	Reorganize Gov't
Subtotal — Public Education		\$(276,920,423)	R	\$(278,620,098)	R	

Expansion Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
Disadv. Student Supp. Funding (DSSF)	Eliminate GF Expansion	\$(18,931,676)	R	\$(18,931,676)	R	Redirect to Priorities
Literacy Coaches	Eliminate GF Expansion	\$(5,704,400)	R	\$(5,704,400)	R	Redirect to Priorities
LEA Assistance and Turn-around Teams	Eliminate GF Expansion	\$(2,000,000)	R	\$(2,000,000)	R	Redirect to Priorities
Learn and Earn High School Initiative	Eliminate GF Expansion	\$(5,976,694)	R	\$(12,161,341)	R	Redirect to Priorities
	Eliminate GF Expansion	\$(1,533,360)	NR	\$—	NR	Redirect to Priorities
Learn and Earn Online	Eliminate GF Expansion	\$(12,830,748)	R	\$(22,668,973)	R	Redirect to Priorities

Expansion Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
School Connectivity	Eliminate GF Expansion	\$(12,000,000)	R	\$(15,000,000)	R	Redirect to Priorities
School Resource Officers	Eliminate GF Expansion	\$(4,464,884)	R	\$(4,464,884)	R	Redirect to Priorities
Military Child Education Coalition Workshops	Eliminate GF Expansion	\$(100,000)	R	\$(100,000)	R	Redirect to Priorities
AP / IB Fees	Eliminate GF Expansion	\$(250,000)	NR	\$—	NR	Redirect to Priorities
Graduation Project	Eliminate GF Expansion	\$(500,000)	R	\$(500,000)	R	Redirect to Priorities
Positive Behavior Support Initiative	Eliminate GF Expansion	\$(90,000)	R	\$(90,000)	R	Redirect to Priorities
Teach for America	Eliminate GF Expansion	\$(800,000)	R	\$(800,000)	R	Redirect to Priorities
Communities in Schools	Eliminate GF Expansion	\$(1,000,000)	R	\$(1,000,000)	R	Redirect to Priorities
NC Network	Eliminate GF Expansion	\$(200,000)	R	\$(200,000)	R	Redirect to Priorities
Schools Attuned	Eliminate GF Expansion	\$(500,000)	R	\$(500,000)	R	Redirect to Priorities
Subtotal—Public Education		\$(65,098,402)	R	\$(84,121,274)	R	
		\$(1,783,360)	NR	\$—	NR	

Community Colleges

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
Child Care Grants	End GF Appropriation	\$(1,923,016)	R	\$(1,923,016)	R	User Responsibility
New Industry Training	Charge Fees to Cover Cost	\$(6,028,541)	R	\$(6,028,541)	R	Revive Enterprise
Public Radio	End GF Appropriation	\$(458,921)	R	\$(458,921)	R	Revive Enterprise
Small Business Centers	End GF Appropriation	\$(5,527,289)	R	\$(5,527,289)	R	Revive Enterprise
Composites Testing	Charge Fees to Cover Cost	\$(100,000)	R	\$(100,000)	R	Revive Enterprise
Focused Industry Training	Charge Fees to Cover Cost	\$(3,964,471)	R	\$(3,964,471)	R	Revive Enterprise
Special Tech Centers	Charge Fees to Cover Cost	\$(3,726,156)	R	\$(3,726,156)	R	Revive Enterprise
Administration	Reduce GF Approp. 10%	\$(1,952,899)	R	\$(1,954,435)	R	Reorganize Gov't
Subtotal—Community Colleges		\$(23,681,293)	R	\$(23,682,829)	R	

Expansion Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
Tuition Increase	Raise to Cover 25% of System Cost by 2nd Year	\$(54,930,249)	R	\$(109,914,846)	R	User Responsibility
NCCCS BioNetwork Capstone Center	Eliminate GF Expansion	\$(310,000)	R	\$(310,000)	R	Revive Enterprise
NC REAL Enterprises	Eliminate GF Expansion	\$(250,000)	NR	\$—	NR	Revive Enterprise
Achieving the Dream	Eliminate GF Expansion	\$(200,000)	R	\$(400,000)	R	Advocacy and Waste
Subtotal—Community Colleges		\$(55,440,249)	R	\$(110,624,846)	R	
		\$(250,000)	NR	\$—	NR	

UNC System

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
Center for Public Television	End GF Appropriation	\$(12,999,543)	R	\$(13,150,497)	R	User Responsibility
Full-Time-Equiv. Status for Student Funding	Require 15 Class Hours per Semester for FTE Status	\$(34,983,959)	R	\$(36,381,143)	R	User Responsibility
Regional Education Program	End GF Appropriation	\$(1,347,282)	R	\$(1,387,370)	R	User Responsibility
UNC Campus Scholarships	Eliminate race-based grants	\$(2,397,950)	R	\$(2,397,950)	R	Advocacy and Waste
UNC College Scholars	End GF Appropriation	\$(2,371,253)	R	\$(2,371,253)	R	Advocacy and Waste
Kannapolis Research Center	End GF Appropriation	\$(5,000,000)	R	\$(5,000,000)	R	Revive Enterprise
UNC Faculty Recruitment and Retention	End GF Appropriation	\$(5,000,000)	R	\$(5,000,000)	R	Advocacy and Waste

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
BOG TEACH Awards	End GF Appropriation	\$(250,000)	R	\$(250,000)	R Advocacy and Waste
Teacher Prep Distributed Ed	End GF Appropriation	\$(1,801,861)	R	\$(1,801,861)	R Advocacy and Waste
Virtual Library	End GF Appropriation	\$(1,454,399)	R	\$(1,454,399)	R Advocacy and Waste
NC TEACH	End GF Appropriation	\$(250,000)	R	\$(250,000)	R Advocacy and Waste
Prosp Teacher Scholars	End GF Appropriation	\$(2,381,164)	R	\$(2,381,164)	R Advocacy and Waste
TA Scholarship Fund	End GF Appropriation	\$(160,925)	R	\$(160,925)	R Advocacy and Waste
Focused Growth Spec.	End GF Appropriation	\$(816,451)	R	\$(816,451)	R Redirect to Priorities
Focused Growth Sp Need	End GF Appropriation	\$(526,551)	R	\$(526,551)	R Redirect to Priorities
Research Overhead	Recover 50% of Receipts to Offset State Approp.	\$(70,000,000)	R	\$(70,000,000)	R User Responsibility
Strategic Initiative	End GF Appropriation	\$(3,300,000)	R	\$(3,300,000)	R Redirect to Priorities
Major Research Initiative	End GF Appropriation	\$(1,013,532)	R	\$(1,013,532)	R Redirect to Priorities
Teacher Prep Distributed Ed	End GF Appropriation	\$(1,801,861)	R	\$(1,801,861)	R User Responsibility
YMCA	End GF Appropriation	\$(36,068)	R	\$(36,068)	R Redirect to Priorities
Global Knowledge Center	End GF Appropriation	\$(1,259,365)	R	\$(1,265,126)	R Redirect to Priorities
Biomanufacturing Teaching & Education	End GF Appropriation	\$(2,359,970)	R	\$(2,377,133)	R Revive Enterprise
American Home at NC State	End GF Appropriation	\$—	R	\$(100,435)	R Redirect to Priorities
NC Arboretum	End GF Appropriation	\$(252,426)	R	\$(207,751)	R Redirect to Priorities
Ocracoke Island Station	End GF Appropriation	\$(246,022)	R	\$(247,348)	R Redirect to Priorities
UNC Hospitals	Reduce GF Approp. 10%	\$(4,567,397)	R	\$(4,567,397)	R User Responsibility
Administration (Campus and System)	Reduce GF Approp. 5%	\$(16,449,687)	R	\$(16,439,104)	R Reorganize Gov't
Subtotal—UNC System		\$(173,027,666)	R	\$(174,685,319)	R

Expansion Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
Tuition Increase	Raise to Cover Avg. 35% of In-State Cost by 2nd Year	\$(26,845,500)	R	\$(57,750,000)	R User Responsibility
Private Medical School Aid*	Increase 25%	\$434,000	R	\$441,750	R Redirect to Priorities
Aid to Private Colleges*	Increase 25%	\$10,290,531	R	\$10,290,531	R Redirect to Priorities
Legislative Tuition Grant*	Increase 25%	\$14,039,901	R	\$14,039,901	R Redirect to Priorities
Future Teachers of NC Scholarship Loan Program	Eliminate GF Expansion	\$(325,000)	R	\$(325,000)	R Redirect to Priorities
Science, Tech, Engin., Mathematics Teachers	Eliminate GF Expansion	\$(1,000,000)	R	\$(1,000,000)	R Redirect to Priorities
Enrollment Growth for Private Colleges	Eliminate GF Expansion	\$(2,372,250)	R	\$(2,372,250)	R Redirect to Priorities
2+2 Joint E-Learning Initiative	Eliminate GF Expansion	\$(1,000,000)	R	\$(1,000,000)	R Redirect to Priorities
UNC Online	Eliminate GF Expansion	\$(2,000,000)	R	\$(4,000,000)	R Redirect to Priorities
	Eliminate GF Expansion	\$(2,200,000)	NR	\$—	NR Redirect to Priorities
EARN Scholars	Eliminate GF Expansion	\$(50,000,000)	R	\$(100,000,000)	R Redirect to Priorities
NCSSM Tuition Grant	Eliminate GF Expansion	\$(272,196)	R	\$(303,603)	R Redirect to Priorities
Grad Nurse Scholarships for Faculty Production	Eliminate GF Expansion	\$(1,200,000)	R	\$(1,200,000)	R Redirect to Priorities
Grad Nurse Schol. Comm. Coll. Nursing Faculty	Eliminate GF Expansion	\$(750,000)	R	\$(1,500,000)	R Redirect to Priorities

Expansion Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
Graduate Student Recruitment and Retention	Eliminate GF Expansion	\$(1,043,551)	R	\$(1,043,551)	R	Redirect to Priorities
Academic Summer Bridge and Retention Pilots	Eliminate GF Expansion	\$(2,180,000)	R	\$(3,060,000)	R	Redirect to Priorities
UNC-TV Statewide Program	Eliminate GF Expansion	\$(878,485)	R	\$(878,485)	R	Redirect to Priorities
NCSU School of Engineering	Eliminate GF Expansion	\$(5,000,000)	R	\$(5,000,000)	R	Revive Enterprise
Distinguished Professor Endowment	Eliminate GF Expansion	\$(1,000,000)	R	\$(1,000,000)	R	Redirect to Priorities
Subtotal—UNC System		\$(71,102,550)	R	\$(155,660,707)	R	
		(2,200,000)	NR	0	NR	

GENERAL GOVERNMENT — Continuation and Expansion Budgets

Governor's Proposal	FY 2007-08	YoY % Change	FY 2008-09	YoY % Change
Administration	\$68,508,544		\$69,010,048	
Cultural Resources	\$72,483,514		\$73,372,756	
General Assembly	\$55,729,083		\$56,931,204	
Governor's Office	\$6,462,319		\$6,500,587	
Housing Finance Agency	\$11,250,945		\$4,750,945	
Revenue	\$87,619,246		\$87,711,626	
Secretary of State	\$10,704,933		\$10,776,784	
State Controller	\$20,817,526		\$20,835,033	
Other General Government	\$94,586,744		\$91,659,723	
TOTAL GENERAL GOVERNMENT	\$428,162,854	9.2%	\$421,548,706	-1.5%
Locke Foundation Revisions	FY 2007-08		FY 2008-09	
Administration	\$(4,953,429)		\$(4,943,740)	
Cultural Resources	\$(25,975,336)		\$(25,930,756)	
General Assembly	\$(719,398)		\$(671,687)	
Governor's Office	\$(1,287,560)		\$(1,302,678)	
Housing Finance Agency	\$(11,250,945)		\$(4,750,945)	
Revenue	\$(667,439)		\$(668,528)	
Secretary of State	\$(378,139)		\$(378,394)	
State Controller	\$(1,032,324)		\$(1,033,500)	
Other General Government	\$—		\$—	
JLF: NET CHANGE	\$(46,264,569)		\$(39,680,227)	
Locke Foundation Total	FY 2007-08		FY 2008-09	
Administration	\$63,555,115		\$64,066,308	
Cultural Resources	\$46,508,178		\$47,442,000	
General Assembly	\$55,009,685		\$56,259,517	
Governor's Office	\$5,174,759		\$5,197,909	
Housing Finance Agency	\$—		\$—	
Revenue	\$86,951,808		\$87,043,099	
Secretary of State	\$10,326,794		\$10,398,390	
State Controller	\$19,785,202		\$19,801,534	
Other General Government	\$94,586,744		\$91,659,723	
JLF: TOTAL GENERAL GOVERNMENT	\$381,898,285	-2.6%	\$381,868,479	-0.0%

Administration

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
N.C. Council for Women	End GF Appropriation	\$(695,760)	R	\$(695,760)	R Advocacy and Waste
Human Relat. Comm.	End GF Appropriation	\$(667,278)	R	\$(667,647)	R Advocacy and Waste
MLK Commission	End GF Appropriation	\$(69,085)	R	\$(69,085)	R Advocacy and Waste
Gov. Council/Disabilities	End GF Appropriation	\$—	R	\$—	R Advocacy and Waste
Commission/Indian Aff.	End GF Appropriation	\$(372,935)	R	\$(373,594)	R Advocacy and Waste

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
Historically Underutilized Businesses (HUBSCO)	End GF Appropriation	\$(1,033,022)	R	\$(1,034,108)	R Advocacy and Waste
Administration	Reduce GF Approp. 10%	\$(295,809)	R	\$(296,306)	R Reorganize Gov't
Subtotal—Administration		\$(3,133,889)	R	\$(3,136,500)	R

Expansion Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
Leadership Development Institute	Eliminate GF Expansion	\$(100,000)	R	\$(100,000)	R Advocacy and Waste
HR Associate Position for Diversity Projects	Eliminate GF Expansion	\$(54,517)	R	\$(54,517)	R Advocacy and Waste
		\$(4,500)	NR	\$—	NR
State Energy Office	Eliminate GF Expansion	\$(1,300,000)	R	\$(1,300,000)	R Advocacy and Waste
Council for Women and Domestic Violence Additional Positions	Eliminate GF Expansion	\$(138,022)	R	\$(138,022)	R Advocacy and Waste
		\$(1,600)	NR	\$—	NR
Commission of Indian Affairs Additional Positions	Eliminate GF Expansion	\$(114,701)	R	\$(114,701)	R Advocacy and Waste
		\$(6,200)	NR	\$—	NR
Comm. Indian Affairs Econ. Development Initiative	Eliminate GF Expansion	\$(100,000)	R	\$(100,000)	R Advocacy and Waste
Subtotal—Administration		\$(1,807,240)	R	\$(1,807,240)	R
		\$(12,300)	NR	\$—	NR

Cultural Resources

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
Historical Publications	Cover 25% of Cost with Increased Donations/Fees	\$(171,719)	R	\$(170,369)	R User Responsibility
State Historic Sites	Cover 25% of Cost with Increased Donations/Fees	\$(2,047,138)	R	\$(2,051,912)	R User Responsibility
Tryon Palace/Gardens	Cover 50% of Cost with Increased Donations/Fees	\$(1,096,193)	R	\$(1,119,797)	R User Responsibility
NC Maritime Museum	Cover 50% of Cost with Increased Donations/Fees	\$(601,800)	R	\$(601,924)	R User Responsibility
NC Museum of Art	Cover 50% of Cost with Increased Donations/Fees	\$(1,968,834)	R	\$(1,971,406)	R User Responsibility
NC Arts Council	End GF Appropriation	\$(7,740,412)	R	\$(7,740,412)	R Restore Civil Society
NC Symphony	End GF Appropriation	\$(2,261,824)	R	\$(2,261,824)	R Restore Civil Society
NC Museum of History	Cover 50% of Cost with Increased Donations/Fees	\$(3,415,719)	R	\$(3,388,151)	R Restore Civil Society
Roanoke Island Comm	End GF Appropriation	\$(2,020,023)	R	\$(2,020,023)	R User Responsibility
Quiz Bowl Grant	End GF Appropriation	\$(3,000)	R	\$(3,000)	R User Responsibility
Reserve—Shakespeare Fest.	End GF Appropriation	\$(232,969)	R	\$(232,969)	R User Responsibility
Res.—Grassroots Arts Fest.	End GF Appropriation	\$(1,739,500)	R	\$(1,739,500)	R User Responsibility
Reserve—SECCA	End GF Appropriation	\$(433,598)	R	\$(433,598)	R User Responsibility
Reserve—NC Maritime Mus.	End GF Appropriation	\$(94,041)	R	\$(47,041)	R User Responsibility
Administration	Reduce GF Approp. 10%	\$(357,518)	R	\$(357,781)	R Reorganize Gov't
Subtotal—Cultural Resources		\$(24,184,286)	R	\$(24,139,706)	R

Expansion Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
Cultural Caring and Sharing	Eliminate GF Expansion	\$(1,250,000)	R	\$(1,250,000)	R Restore Civil Society

Expansion Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
NC Symphony—Additional Support	Eliminate GF Expansion	\$(191,050)	R	\$(191,050)	R	User Responsibility
Queen Anne's Revenge Archaeology Project	Eliminate GF Expansion	\$(150,000)	R	\$(150,000)	R	Restore Civil Society
NC Exploring Cultural Heritage Online	Eliminate GF Expansion	\$(200,000)	R	\$(200,000)	R	Restore Civil Society
Subtotal—Cultural Resources		\$(1,791,050)	R	\$(1,791,050)	R	

General Assembly

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
Food Service	Charge Fees to Cover Cost	\$(719,398)	R	\$(671,687)	R	User Responsibility
Subtotal—General Assembly		\$(719,398)	R	\$(671,687)	R	

Governor's Office

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
Dues to Nat'l Assoc.	End GF Appropriation	\$(450,555)	R	\$(464,975)	R	Advocacy and Waste
Education Office	End GF Appropriation	\$(434,700)	R	\$(434,700)	R	Reorganize Gov't
Administration	Reduce GF Approp. 10%	\$(402,305)	R	\$(403,003)	R	Reorganize Gov't
Subtotal—Governor		\$(1,287,560)	R	\$(1,302,678)	R	

Housing Finance Agency

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
Housing Finance Funds	End GF Appropriation	\$(4,750,945)	R	\$(4,750,945)	R	Restore Civil Society
Subtotal—Housing Fin.		\$(4,750,945)	R	\$(4,750,945)	R	

Expansion Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
NC Housing Trust Fund	Eliminate GF Expansion	\$(5,000,000)	NR	\$—	NR	Restore Civil Society
Home Prot. Pilot Program	Eliminate GF Expansion	\$(1,500,000)	NR	\$—	NR	Restore Civil Society
Subtotal—Housing Fin.		\$(6,500,000)	NR	\$—	NR	

Revenue

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
Administration	Merge with OSBM, Controller to Create Dept. of Finance	\$(667,439)	R	\$(668,528)	R	Reorganize Gov't
Subtotal—Revenue		\$(667,439)	R	\$(668,528)	R	

Secretary of State

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
Land Records Management	End GF Appropriation	\$(150,291)	R	\$(150,291)	R	State/Local Relations
Administration	Reduce GF Approp. 10%	\$(227,848)	R	\$(228,103)	R	Reorganize Gov't
Subtotal—Sec. of State		\$(378,139)	R	\$(378,394)	R	

State Controller

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
Administration	Merge with OSBM, Revenue to Create Dept. of Finance	\$(1,032,324)	R	\$(1,033,500)	R	Reorganize Gov't
Subtotal—Controller		\$(1,032,324)	R	\$(1,033,500)	R	

Health and Human Services — Continuation and Expansion Budgets

Governor's Proposal	FY 2007-08	YoY % Change	FY 2008-09	YoY % Change
Division of Medical Assistance	\$2,882,941,451		\$3,167,283,638	
Other HHS	\$1,709,125,955		\$1,708,750,479	
TOTAL HEALTH AND HUMAN SERVICES	\$4,592,067,406	+8.5%	\$4,876,034,117	+6.2%
Locke Foundation Revisions				
Division of Medical Assistance	\$(51,855,111)		\$(59,640,423)	
Other HHS	\$(263,881,430)		\$(262,480,447)	
JLF: NET CHANGE	\$(315,736,541)		\$(322,120,871)	
Locke Foundation Total				
Division of Medical Assistance	\$2,831,086,340		\$3,107,643,215	
Other HHS	\$1,445,244,525		\$1,446,270,032	
JLF: TOTAL HEALTH AND HUMAN SERVICES	\$4,276,330,865	+1.0%	\$4,553,913,246	+6.5%

Division of Medical Assistance

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
Medicaid Fees, Services	Adjustments to bring NC closer to regional norms (save 12%)	\$(165,794,498)	R	\$(365,319,846)	R	Restrain Entitlements
Medicaid coverage for children up to 200% FPL	Eliminate 2005 Expansion	\$(17,685,090)	R	\$(17,685,090)	R	Restrain Entitlements
NC Health Choice	Return to FY02-03 levels	\$(27,826,118)	R	\$(37,979,197)	R	Restrain Entitlements
Subtotal—DMA		\$(211,305,706)	R	\$(420,984,133)	R	

Expansion Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
County Share of Medicaid	End County Share by 2010	\$172,333,333	R	\$377,333,333	R	State/Local Relations
NC Health Choice Eligibility	Eliminate 2005 Expansion	\$(13,613,590)	R	\$(13,613,590)	R	Restrain Entitlements
NC Kids' Care	Eliminate GF Expansion	\$(3,159,839)	R	\$(7,006,061)	R	Restrain Entitlements
		\$(1,557,036)	NR	\$—	NR	
Medicaid Coverage for Foster Care Adolescents	Eliminate GF Expansion	\$(216,466)	R	\$(645,841)	R	Restrain Entitlements
Additional DMA Staffing	Eliminate GF Expansion	\$(412,642)	R	\$(829,730)	R	Restrain Entitlements
		\$(28,763)	NR	\$—	NR	
Health Choice Shortfall	Eliminate GF Expansion	\$(7,507,992)	R	\$(7,507,992)	R	Restrain Entitlements
Subtotal—DMA		\$161,036,394	R	\$361,343,709	R	
		\$(1,585,799)	NR	\$—	NR	

Other HHS

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
Div. Facility Services	End CON Regulations	\$(1,699,573)	R	\$(1,701,468)	R	Revive Enterprise
Disability Administration	Merge Divs Blind, Deaf, Vocational Rehabilitation	\$(2,916,309)	R	\$(2,920,022)	R	Reorganize Gov't
Smart Start	Convert to Education Tax Credits / Deductions	\$(203,687,096)	R	\$(203,687,096)	R	Restrain Entitlements
TEACH Program	Convert to Education Tax Credits / Deductions	\$(898,839)	R	\$(900,974)	R	Restrain Entitlements

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
Senior Games	End GF Appropriation	\$(175,000)	R	\$(175,000)	R	Restore Civil Society
Elder Rights Program	End GF Appropriation	\$(869,535)	R	\$(869,832)	R	Advocacy and Waste
Alzheimer's Association	End GF Appropriation	\$(150,000)	R	\$(150,000)	R	Restore Civil Society
Aging Div. Administration	Merge Agencies, Cut 50%	\$(360,857)	R	\$(360,857)	R	Reorganize Gov't
Special Assistance	Roll Back Planned Increases	\$(82,133,969)	R	\$(82,133,969)	R	Restrain Entitlements
Office of Rural Health	Reduce GF Approp. 25%	\$(2,352,315)	R	\$(2,352,707)	R	Redirect to Priorities
Abortion Fund	Eliminate	\$(50,000)	R	\$(50,000)	R	Restrain Entitlements
Office of Econ Opportunity	End GF Appropriation	\$(75,194)	R	\$613,399	R	Advocacy and Waste
NC Council Dev Disabilities	End GF Appropriation	\$(119,986)	R	\$(1,679,439)	R	Restore Civil Society
Central Administration	Reduce GF Approp. 10%	\$(1,121,475)	R	\$(1,124,005)	R	Reorganize Gov't
Subtotal—Other HHS		\$(296,610,146)	R	\$(297,491,968)	R	

Expansion Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
Housing/Homeless Staffing	Eliminate GF Expansion	\$(154,360)	R	\$(248,341)	R	Redirect to Priorities
Medical and Dental Recruitment Incentives	Eliminate GF Expansion	\$(500,000)	R	\$(500,000)	R	Redirect to Priorities
NC Health Net	Eliminate GF Expansion	\$(3,000,000)	NR	\$—	NR	Redirect to Priorities
Pilot for Adult Care Homes	Eliminate GF Expansion	\$(264,000)	R	\$(264,000)	R	Redirect to Priorities
Child Care Subsidies	Eliminate GF Expansion	\$(8,400,000)	R	\$(8,400,000)	R	Redirect to Priorities
T.E.A.C.H. Early Childhood Project Scholarships	Eliminate GF Expansion	\$(1,100,000)	R	\$(1,100,000)	R	Redirect to Priorities
Student Life Svcs at GMS	Eliminate GF Expansion	\$(88,690)	R	\$(118,253)	R	Redirect to Priorities
School Technology Leadership	Eliminate GF Expansion	\$(53,534) \$(3,500)	R NR	\$(71,385) \$—	R NR	Redirect to Priorities
Eliminate Health Disparities	Eliminate GF Expansion	\$(750,000)	R	\$(750,000)	R	Redirect to Priorities
Child Welfare Post Secondary Support Program	Eliminate GF Expansion	\$(3,807,200)	R	\$(7,036,500)	R	Redirect to Priorities
Mental Health*	Increase Funding and Accountability	\$50,000,000	NR	\$50,000,000	NR	Redirect to Priorities
High Risk Pool*	Create High Risk Pool	\$850,000	R	\$3,500,000	R	Redirect to Priorities
Subtotal—Other HHS		\$(14,267,784) \$46,996,500	R NR	\$(14,988,479) \$50,000,000	R NR	

Justice and Public Safety — Continuation and Expansion Budgets

Governor's Proposal	FY 2007-08	YoY % Change	FY 2008-09	YoY % Change
Correction	\$1,217,393,823		\$1,237,821,977	
Crime Control and Public Safety	\$47,526,155		\$43,054,413	
Department of Justice	\$96,375,618		\$92,533,849	
Juvenile Justice	\$161,610,825		\$165,811,556	
Indigent Defense	\$104,747,454		\$108,569,559	
Judicial	\$420,098,593		\$423,824,541	
TOTAL JUSTICE AND PUBLIC SAFETY	\$2,047,752,468	+12.6%	\$2,071,615,895	+1.2%
Locke Foundation Revisions				
Correction	\$(19,238,262)		\$(21,527,881)	
Crime Control and Public Safety	\$(9,573,921)		\$(9,568,361)	
Department of Justice	\$(3,482,823)		\$(3,306,841)	
Juvenile Justice	\$(7,448,040)		\$(7,449,594)	
Indigent Defense	\$(2,562,458)		\$(2,698,268)	
Judicial	\$—		\$—	
JLF: NET CHANGE	\$(42,305,504)		\$(44,550,944)	
Locke Foundation Total				
Correction	\$1,198,155,561		\$1,216,294,096	
Crime Control and Public Safety	\$37,952,234		\$33,486,052	
Department of Justice	\$92,892,795		\$89,227,009	
Juvenile Justice	\$154,162,785		\$158,361,962	
Indigent Defense	\$102,184,996		\$105,871,291	
Judicial	\$420,098,593		\$423,824,541	
JLF: TOTAL JUSTICE AND PUBLIC SAFETY	\$2,005,446,964	+10.3%	\$2,027,064,951	+1.1%

Correction

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
Prison Enterprises	Increase Participation, Sales by 20%	\$(83,745)	R	\$(83,745)	R User Responsibility
Prison Health Services	Reform Payments, Services to Freeze Cost at FY 2007 Levels	\$(16,635,491)	R	\$(18,936,136)	R Restrain Entitlements
Administration	Merge with CCPS, Juv. Just. to Form Dept. of Public Safety	\$(2,519,026)	R	\$(2,508,000)	R Reorganize Gov't
Subtotal—Correction		\$(19,238,262)	R	\$(21,527,881)	R

Crime Control and Public Safety

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
Civil Air Patrol	End GF Appropriation	\$(145,192)	R	\$(137,192)	R Restore Civil Society
Alcohol Law Enforcement	Eliminate ABC laws and administrative rules	\$(4,719,836)	R	\$(4,720,341)	R Reorganize Gov't
Governor's Crime Commission	End GF Appropriation	\$(819,885)	R	\$(821,022)	R Reorganize Gov't

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
National Guard	Consolidate Guard Armories, Cut GF Appropriation 25%	\$(3,807,031)	R	\$(3,807,665)	R Reorganize Gov't
Administration	Merge to Form Dept. of Public Safety	\$(81,976)	R	\$(82,141)	R Reorganize Gov't
Subtotal—Crime Control		\$(9,573,921)	R	\$(9,568,361)	R

Department of Justice

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
SBI	Merge to Form Dept. of Public Safety	\$(2,756,306)	R	\$(2,575,891)	R Reorganize Gov't
Criminal Justice Training	Merge to Form Dept. of Public Safety	\$(440,657)	R	\$(444,312)	R Reorganize Gov't
General Administration	Reduce GF Approp. 10%	\$(285,860)	R	\$(286,638)	R Reorganize Gov't
Subtotal—Justice		\$(3,482,823)	R	\$(3,306,841)	R

Juvenile Justice

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
Support Our Students	End GF Appropriation	\$(6,353,026)	R	\$(6,353,026)	R Restore Civil Society
Center to Prevent School Violence	End GF Appropriation	\$(287,660)	R	\$(288,144)	R Restore Civil Society
Administration	Merge to Form Dept. of Public Safety	\$(807,354)	R	\$(808,424)	R Reorganize Gov't
Subtotal—Juvenile Justice		\$(7,448,040)	R	\$(7,449,594)	R

Indigent Defense

Expansion Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
Rate for Private Assigned Counsel	End GF Appropriation	\$(2,562,458)	R	\$(2,698,268)	R Advocacy and Waste
Subtotal—Indigent Defense		\$(2,562,458)	R	\$(2,698,268)	R

Natural and Economic Resources — Continuation and Expansion Budgets

Governor's Proposal	FY 2007-08	YoY % Change	FY 2008-09	YoY % Change
Agriculture and Consumer Services	\$67,134,939		\$61,314,179	
Commerce	\$115,312,800		\$94,763,197	
Environment and Natural Resources	\$200,131,656		\$201,707,134	
Labor	\$16,594,758		\$16,594,951	
Clean Water Management Trust Fund	\$100,000,000		\$100,000,000	
TOTAL NATURAL AND ECONOMIC RESOURCES	\$499,174,153	+3.4%	\$474,379,461	-5.0%
Locke Foundation Revisions				
Agriculture and Consumer Services	\$(27,407,261)		\$(21,417,505)	
Commerce	\$(93,243,948)		\$(72,309,801)	
Environment and Natural Resources	\$(23,941,201)		\$(26,359,395)	
Labor	\$(2,687,550)		\$(2,687,524)	
Clean Water Management Trust Fund	\$—		\$—	
JLF: NET CHANGE	\$(147,279,960)		\$(122,774,225)	
Locke Foundation Total				
Agriculture and Consumer Services	\$39,727,678		\$39,896,674	
Commerce	\$22,068,852		\$22,453,396	
Environment and Natural Resources	\$176,190,455		\$175,347,739	
Labor	\$13,907,208		\$13,907,427	
Clean Water Management Trust Fund	\$100,000,000		\$100,000,000	
JLF: NATURAL AND ECONOMIC RESOURCES	\$351,894,193	-27.1%	\$351,605,236	-0.1%

Agriculture

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
Marketing	End GF Appropriation	\$(7,135,816)	R	\$(7,113,940)	R Revive Enterprise
Agronomic Services	End GF Appropriation	\$(3,728,530)	R	\$(3,757,640)	R User Responsibility
Comm. Feed/Pet Food	End GF Appropriation	\$(856,114)	R	\$(772,231)	R User Responsibility
Comm. Fertilizer Analysis	End GF Appropriation	\$(838,470)	R	\$(858,584)	R User Responsibility
Pesticide Control & Analysis	End GF Appropriation	\$(1,622,769)	R	\$(1,679,707)	R User Responsibility
Seed Testing	End GF Appropriation	\$(745,409)	R	\$(753,329)	R User Responsibility
Plant Protection	End GF Appropriation	\$(3,437,836)	R	\$(3,435,314)	R User Responsibility
Agriculture Review	End GF Appropriation	\$(164,160)	R	\$(162,556)	R User Responsibility
Administrative Services	Cut GF Appropriation 50%	\$(2,638,157)	R	\$(2,644,203)	R Reorganize Gov't
Subtotal—Agriculture		\$(21,167,261)	R	\$(21,177,505)	R

Expansion Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
Improve Agricultural Review	Eliminate GF Expansion	\$(40,000)	R	\$(40,000)	R User Responsibility
“Got to Be NC” Campaign	Eliminate GF Expansion	\$(200,000)	R	\$(200,000)	R Revive Enterprise
NC Farm Prot. Trust Fund	Eliminate GF Expansion	\$(6,000,000)	NR	\$—	NR Advocacy and Waste
Subtotal—Agriculture		\$(240,000)	R	\$(240,000)	R
		\$(6,000,000)	NR	\$—	NR

Commerce

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
Policy & Research Div	End GF Appropriation	\$(1,146,513)	R	\$(1,146,513)	R	Revive Enterprise
Welcome Centers	End GF Appropriation	\$(1,805,005)	R	\$(1,806,019)	R	Redirect to Priorities
Exec Aircraft Operations	Cut GF Appropriation 50%	\$(1,594,721)	R	\$(1,421,526)	R	Reorganize Gov't
Marketing/Custom Serv.	End GF Appropriation	\$(1,881,389)	R	\$(1,881,389)	R	Revive Enterprise
Business/Industry Dev.	End GF Appropriation	\$(5,321,606)	R	\$(5,325,474)	R	Revive Enterprise
International Trade Div.	End GF Appropriation	\$(2,483,567)	R	\$(2,483,567)	R	Revive Enterprise
Tourism, Film, Sports	End GF Appropriation	\$(10,625,296)	R	\$(10,627,109)	R	Revive Enterprise
Board Science/Tech	End GF Appropriation	\$(340,938)	R	\$(340,938)	R	Revive Enterprise
Wanchese Indus. Park	End GF Appropriation	\$(431,854)	R	\$(433,088)	R	Revive Enterprise
Industrial Finance Ctr	End GF Appropriation	\$(848,889)	R	\$(849,352)	R	Revive Enterprise
Local Planning, Mgmt.	End GF Appropriation	\$(3,552,339)	R	\$(3,557,437)	R	State/Local Relations
Biotechnology Center	End GF Appropriation	\$(12,583,395)	R	\$(12,583,395)	R	Revive Enterprise
Rural Econ. Dev. Center	End GF Appropriation	\$(24,302,607)	R	\$(24,302,607)	R	Revive Enterprise
Administrative Services	Cut GF Appropriation 67%	\$(1,532,991)	R	\$(1,348,549)	R	Reorganize Gov't
Subtotal—Commerce		\$(68,451,110)	R	\$(68,106,963)	R	

Expansion Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
One NC Fund	Eliminate GF Expansion	\$(15,000,000)	NR	\$—	NR	Revive Enterprise
One NC Small Business Program	Eliminate GF Expansion	\$(5,000,000)	NR	\$—	NR	Revive Enterprise
Marketing and Customer Services Web Content Manager	Eliminate GF Expansion	\$(104,947)	R	\$(104,947)	R	Revive Enterprise
Business and Industry Rel. Mgmt Tool	Eliminate GF Expansion	\$(50,000)	R	\$(50,000)	R	Revive Enterprise
		\$(300,000)	NR	\$—	NR	
Entrepreneurship and North-east Regional Office	Eliminate GF Expansion	\$(184,893)	R	\$(184,893)	R	Revive Enterprise
Policy, Research, and Strat Planning System Upgrades	Eliminate GF Expansion	\$(10,000)	R	\$(10,000)	R	Revive Enterprise
		\$(290,000)	NR	\$—	NR	
Monitor and Operational Funding	Eliminate GF Expansion	\$(115,409)	R	\$(115,409)	R	Revive Enterprise
Small Town Main Street	Eliminate GF Expansion	\$(65,935)	R	\$(65,935)	R	Revive Enterprise
Position for I-95 Center, Restore of Operating Funds	Eliminate GF Expansion	\$(71,654)	R	\$(71,654)	R	Revive Enterprise
Motorsports Program	Eliminate GF Expansion	\$(100,000)	R	\$(100,000)	R	Revive Enterprise
NC Biotech Center	Eliminate GF Expansion	\$(500,000)	R	\$(500,000)	R	Revive Enterprise
Biotech-Dependent Ind.	Eliminate GF Expansion	\$(3,000,000)	R	\$(3,000,000)	R	Revive Enterprise
Subtotal—Commerce		\$(4,202,838)	R	\$(4,202,838)	R	
		\$(20,590,000)	NR	\$—	NR	

Environment and Natural Resources

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
Environmental Educ.	End GF Appropriation	\$(509,454)	R	\$(465,984)	R	Advocacy and Waste
Forestry	Cover 50% of Cost with Receipts & Fees	\$(11,314,184)	R	\$(11,807,685)	R	User Responsibility
DFR Tree Improvement	End GF Appropriation	\$(525,285)	R	\$(444,388)	R	User Responsibility

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
State Parks	Cover 30% of Cost with Increased Donations/Fees	\$(1,340,001)	R	\$(1,837,287)	User Responsibility
NC Zoo	Cover 50% of Cost with Increased Donations/Fees	\$(2,912,343)	R	\$(2,967,023)	User Responsibility
Aquariums	Cover 50% of Cost with Increased Donations/Fees	\$(2,652,756)	R	\$(1,171,287)	User Responsibility
Museum of Nat. Science	Cover 50% of Cost with Increased Donations/Fees	\$(3,867,471)	R	\$(6,966,279)	User Responsibility
Administration	Reduce GF Approp. 10%	\$(819,708)	R	\$(699,463)	Reorganize Gov't
Subtotal— DENR		\$(23,941,201)	R	\$(26,359,395)	R

Labor

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
Retaliatory Discrim.	End GF Appropriation	\$(617,668)	R	\$(617,668)	Advocacy and Waste
On Site Consultation	End GF Appropriation	\$(126,634)	R	\$(126,608)	User Responsibility
Apprenticeship Train.	End GF Appropriation	\$(1,743,891)	R	\$(1,743,891)	Reorganize Gov't
Administration	Reduce GF Approp. 10%	\$(199,357)	R	\$(199,357)	Reorganize Gov't
Subtotal—Labor		\$(2,687,550)	R	\$(2,687,524)	R

Transportation — Continuation and Expansion Budgets

Governor's Proposal	FY 2007-08	YoY % Change	FY 2008-09	YoY % Change
Highway Fund / Highway Trust Fund	\$2,956,020,000		\$2,974,640,000	
TOTAL TRANSPORTATION	\$2,956,020,000	+2.1%	\$2,974,640,000	+0.6%
Locke Foundation Revisions				
Highway Fund	\$(90,510,187)		\$(97,050,820)	
Highway Trust Fund	\$(219,947,645)		\$(220,992,377)	
Highway Fund / Highway Trust Fund Expansion	\$550,297,500		\$549,933,522	
JLF: NET CHANGE	\$239,839,669		\$231,890,326	
Locke Foundation Total				
Highway Fund / Highway Trust Fund	\$3,195,859,669		\$3,206,530,326	
JLF: TRANSPORTATION	\$3,195,859,669	+10.4%	\$3,206,530,326	+0.3%

Highway Fund

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
Aeronautics	End HF Appropriation	\$(2,442,549)	R	\$(2,444,220)	R State/Local Relations
Bicycle Program	End HF Appropriation	\$(603,815)	R	\$(605,756)	R State/Local Relations
Public Transport. Admin.	End HF Appropriation	\$(449,283)	R	\$(449,283)	R State/Local Relations
Public Transport Grants	Reduce HF Approp. 50%	\$(47,433,224)	R	\$(47,433,224)	R State/Local Relations
Railroad Program	End HF Appropriation	\$(17,101,153)	R	\$(17,101,153)	R Revive Enterprise
Rail Program Admin.	End HF Appropriation	\$(679,535)	R	\$(679,535)	R Redirect to Priorities
Ferry Division Admin.	Charge Fees to Users to Cover 50% Cost by 2nd Yr	\$(313,613)	R	\$(628,256)	R User Responsibility
Ferry Operations	Charge Fees to Users to Cover 50% Cost by 2nd Yr	\$(6,215,980)	R	\$(12,431,961)	R Redirect to Priorities
Construction—Contingency	Reduce HF Approp. 67%	\$(10,000,000)	R	\$(10,000,000)	R Reorganize Gov't
DMV—Driver's License	Consolid. Offices, Cut 10%	\$(4,723,633)	R	\$(4,729,282)	R Reorganize Gov't
Central Administration	Reduce HF Approp. 25%	\$(547,402)	R	\$(548,151)	R Reorganize Gov't
Subtotal—Highway Fund		\$(90,510,187)	R	\$(97,050,820)	R

Highway Trust Fund

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
Secondary Roads	Reduce HTF Approp. 50%	\$(47,404,339)	R	\$(48,393,113)	R Redirect to Priorities
Hwy Trust Fund Transfer	Eliminate Fund Diversion	\$(172,543,306)	R	\$(172,599,264)	R Redirect to Priorities
Subtotal—Hwy Trust Fund		\$(219,947,645)	R	\$(220,992,377)	R

Highway Fund / Highway Trust Fund

Expansion Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
HF Construction*	Increase Investment 30%	\$42,043,811	R	\$42,052,185	R Redirect to Priorities
HF Maintenance*	Increase Investment 30%	\$280,609,942	R	\$276,116,871	R Redirect to Priorities
Urban Loop Construct.*	Increase Investment 30%	\$65,545,700	R	\$66,732,182	R Redirect to Priorities
Intrastate Construction*	Increase Investment 30%	\$162,098,048	R	\$165,032,284	R Redirect to Priorities
NET HF/TF EXPANSION		\$550,297,500	R	\$549,933,522	R

Capital, Debt Service, Reserves, etc. — Continuation and Expansion Budgets

Governor's Proposal	FY 2007-08	YoY % Change	FY 2008-09	YoY % Change
Capital Improvements	\$63,883,409		\$—	
Debt Service	\$621,409,384		\$656,915,864	
Reserves and Adjustments	\$660,196,566		\$621,181,953	
TOTAL CAPITAL, DEBT SERVICE, ETC.	\$1,345,489,359		\$1,278,097,817	
Locke Foundation Revisions				
Capital Improvements	\$—		\$—	
Debt Service	\$(108,600,000)		\$(78,200,000)	
Reserves and Adjustments	\$297,149,365		\$297,149,365	
JLF: NET CHANGE	\$188,549,365		\$218,949,365	
Locke Foundation Total				
Capital Improvements	\$63,883,409		\$—	
Debt Service	\$512,809,384		\$578,715,864	
Reserves and Adjustments	\$957,345,931		\$918,331,318	
JLF: TOTAL CAPITAL, DEBT SERVICE, ETC.	\$1,534,038,724		\$1,497,047,182	

Debt Service

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
North Carolina Railroad	Privatize; Use Proceeds to Reduce State Debt	\$(40,000,000)	R	\$(42,000,000)	R Revive Enterprise
State-Owned Ports	Privatize; Use Proceeds to Reduce State Debt	\$(7,600,000)	R	\$(7,700,000)	R Revive Enterprise
State Bonded Debt	Suspend Bond Issuance	\$(61,000,000)	R	\$(28,500,000)	R Redirect to Priorities
Subtotal—Debt Service		\$(108,600,000)	R	\$(78,200,000)	R

Other Adjustments

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
State Employee Salaries*	Increase by 5%	\$147,149,365	R	\$147,149,365	R Redirect to Priorities
State Retiree Health*	Prefund	\$150,000,000	R	\$150,000,000	R Redirect to Priorities
Subtotal—Other Adjust.		\$297,149,365	R	\$297,149,365	R

FEE-BASED ITEMS

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
Board/Barber Examiners	Convert to Voluntary Cert.	\$(528,797)	R	\$(528,797)	User Responsibility
Board of Cosmetic Arts	Convert to Voluntary Cert.	\$(2,122,094)	R	\$(2,127,587)	User Responsibility
Board of Opticians	Convert to Voluntary Cert.	\$(209,457)	R	\$(209,457)	User Responsibility
Psychology Board	Convert to Voluntary Cert.	\$(601,235)	R	\$(601,235)	User Responsibility
Auctioneer License Board	Convert to Voluntary Cert.	\$(508,457)	R	\$(508,657)	User Responsibility
Board/Electrolysis Exam	Convert to Voluntary Cert.	\$(22,900)	R	\$(22,900)	User Responsibility
Grape Growers Council	Convert to Voluntary Prog.	\$(798,990)	R	\$(798,990)	User Responsibility
Sleep Products	Convert to Voluntary Cert.	\$(567,865)	R	\$(567,865)	User Responsibility
Subtotal—Fee Items		\$(5,359,795)	R	\$(5,365,488)	R

FEE SAVINGS

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
Board/Barber Examiners	Convert to Voluntary Cert.	\$543,549	R	\$543,549	User Responsibility
Board of Cosmetic Arts	Convert to Voluntary Cert.	\$2,549,206	R	\$1,066,211	User Responsibility
Board of Opticians	Convert to Voluntary Cert.	\$176,265	R	\$176,265	User Responsibility
Psychology Board	Convert to Voluntary Cert.	\$105,755	R	\$105,755	User Responsibility
Auctioneer License Board	Convert to Voluntary Cert.	\$509,539	R	\$509,539	User Responsibility
Board/Electrolysis Exam	Convert to Voluntary Cert.	\$22,900	R	\$22,900	User Responsibility
Grape Growers Council	Convert to Voluntary Prog.	\$798,990	R	\$798,990	User Responsibility
Sleep Products	Convert to Voluntary Cert.	\$567,865	R	\$567,865	User Responsibility
Subtotal—Fee Savings		\$5,274,069	R	\$3,791,074	R

ITEMS WITH MINIMAL GENERAL FUND IMPACT

Base Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
Employment & Training Admin	End GF Appropriation	\$(16,400)	R	\$(16,400)	Revive Enterprise
Industrial Development Fund	End GF Appropriation	\$(3,274,769)	R	\$(3,274,769)	Revive Enterprise
Comm on Workforce Dev	End GF Appropriation	\$—	R	\$—	Revive Enterprise
Banking Institutions Admin	Merge with Credit Union Supervision	\$—	R	\$—	Reorganize Gov't
Credit Union Supervision	Merge with Banking Admin	\$(26,435)	R	\$(26,435)	Reorganize Gov't
Cemetery Commission	End GF Appropriation	\$—	R	\$—	Restore Civil Society
ABC Commission	End GF Appropriation	\$(1,564,317)	R	\$(1,766,317)	Revive Enterprise
Rehab Loan Fund	End GF Appropriation	\$—	R	\$—	Revive Enterprise
Agric Finance Admin	Make Independent	\$—	R	\$—	Revive Enterprise
Raleigh Farmers Market	Make Independent	\$—	R	\$—	Revive Enterprise
Western NC Ag Fair	Make Independent	\$—	R	\$—	Revive Enterprise
North Carolina State Fair	Make Independent	\$—	R	\$—	Revive Enterprise
Subtotal—Fee Savings		\$(4,881,921)	R	\$(5,083,921)	R

TOTAL—General Fund Base	\$(934,938,324)	\$(1,117,769,977)
TOTAL—GF EXPANSION	\$(40,901,135)	\$35,209,008
NET GF SAVINGS	\$(1,007,138,139)	\$(1,113,859,649)

GENERAL FUND REVENUES

Adjusting Availability

Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
Sales & Use Tax	Implement Legislated Repeal of Temporary Tax Hike	\$(259,900,000)	R	\$(286,300,000)	R	Revive Enterprise
Personal Income Tax	Implement Legislated Repeal of Temporary Tax Hike	\$(40,800,000)	R	\$(93,700,000)	R	Revive Enterprise
No-Tax Floor	Eliminate proposal	\$28,000,000	R	\$63,000,000	R	Redirect to Priorities
Higher Ed Tax Deduction	Eliminate proposal	\$13,900,000	R	\$14,400,000	R	Redirect to Priorities
Hwy Trust Fund Transfer	Eliminate Fund Diversion	\$(172,543,306)	NR	\$(172,599,264)	NR	Redirect to Priorities
Saving Reserve Account	Increase Rainy Day Fund	\$(100,000,000)	NR	\$(100,000,000)	NR	Redirect to Priorities
Tobacco Master Settlement	Redirect to Gen. Fund	\$140,000,000	R	\$140,000,000	R	Redirect to Priorities
Subtotal—Adjustments to Availability		\$(118,800,000)	R	\$(162,600,000)	R	
		\$(272,543,306)	NR	\$(272,599,264)	NR	

Tax Cuts/Reforms

Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact		Reason
Individual Income Tax	Cut Top Rates to 6.75% from 1 Jan 08, to 6% from 1 Jan 09	\$(253,617,562)	R	\$(816,565,141)	R	Revive Enterprise
Corporate Income Tax	Cut 6.9% Rate to 6.5% from 1 Jan 08, to 6% from 1 Jan 09	\$(40,441,569)	R	\$(90,993,531)	R	Revive Enterprise
Cigarette Tax	Repeal 2005 rate increase	\$(171,400,000)	R	\$(277,100,000)	R	Revive Enterprise
Withholding/Collection Changes	Repeal 2001 Tax Hikes	\$(6,020,000)	R	\$(6,020,000)	R	Revive Enterprise
Smart Start Tax Credits	\$200 Refundable Credit for Every Preschool Child	\$(70,863,200)	R	\$(70,863,200)	R	Reduce Tax Bias in Educ. Investment
Education Tax Relief	\$1,500 Deduction Per Child for Tuition or Edu. Savings	\$(159,142,515)	R	\$(159,142,515)	R	Reduce Tax Bias in Educ. Investment
Health Insurance Tax Credit	\$250 Credit per person for insurance premiums	\$(130,230,990)	R	\$0	R	Reduce Tax Bias In Health Insurance
Long Term Care Tax Credit	Restore Credit	\$(6,000,000)	R	\$(6,000,000)	R	Reduce Tax Bias In Health Insurance
Film Industry Production Expenses	Eliminate Credit	\$5,400,000	R	\$5,400,000	R	Reduce Tax Bias
Pension Benefits	Remove Special Treatment	\$68,800,000	R	\$68,800,000	R	Reduce Tax Bias
Sales Tax Holiday	Repeal 2001 Provision	\$11,000,000	R	\$11,000,000	R	Reduce Tax Bias
Severance Pay	Tax as Compensation	\$9,700,000	R	\$9,700,000	R	Reduce Tax Bias
Qual. Business Credit	Eliminate Credit	\$6,000,000	R	\$6,000,000	R	Reduce Tax Bias
Child Care Credit	Convert to SS Tax Credit	\$41,200,000	R	\$41,200,000	R	Reduce Tax Bias
Develop. Zone Credits	Eliminate Credits	\$100,000	R	\$100,000	R	Reduce Tax Bias
Business Property	Eliminate Credit	\$24,600,000	R	\$24,600,000	R	Reduce Tax Bias
Low-Income Housing	Eliminate Credit	\$47,100,000	R	\$47,100,000	R	Reduce Tax Bias
Dry Cleaning Equipment	Eliminate Credit	\$1,000,000	R	\$1,000,000	R	Reduce Tax Bias
Historic Structures	Eliminate Credit	\$11,000,000	R	\$11,000,000	R	Reduce Tax Bias
Cogeneration Plants	Eliminate Credit	\$—	R	\$—	R	Reduce Tax Bias
Gleaned Crop	Eliminate Credit	\$40,000	R	\$40,000	R	Reduce Tax Bias

Budget Item	Recommendation	FY 2007-08 Impact		FY 2008-09 Impact	Reason
Renewable Energy Prop.	Eliminate Credit	\$3,500,000	R	\$3,500,000	R Reduce Tax Bias
Job & R&D Tax Credits	Eliminate Credits	\$80,000,000	R	\$84,400,000	R Reduce Tax Bias
Recycling Facility	Eliminate Credit	\$500,000	R	\$500,000	R Reduce Tax Bias
State Port Usage	Eliminate Credit	\$400,000	R	\$400,000	R Reduce Tax Bias
Cigarette Export	Eliminate Credit	\$6,534,283	R	\$6,967,743	R Reduce Tax Bias
Subtotal—Net Tax Reduction		\$(520,841,553)	R	\$(1,235,207,633)	R
Net Change in Availability (tax cuts, etc)		\$(912,184,859)		\$(1,670,406,897)	

Appendix B: Summary of Recommendations

Summary of Recommended Changes to 2007-09 Budget (\$ Millions)

GENERAL FUND	FY 2007-08	FY 2008-09
Total Proposed Savings	\$(1,557.0)	\$(1,868.7)
Adjustments, Spending	\$519.5	\$724.5
Subtotal—Net Savings	\$(1,037.5)	\$(1,144.2)
Total Proposed Tax Relief	\$(1,112.4)	\$(1,910.9)
Tax Reform Additions	\$358.8	\$399.1
Other Availability Changes	\$(132.5)	\$(132.6)
Subtotal—Net GF Impact	\$(886.1)	\$(1,644.4)
<i>Easley's General Fund Budget</i>		
Availability with Tax Hikes	\$20,185.1	\$20,743.1
Authorized GF Budget	\$20,066.3	\$20,437.6
Education	\$11,153.7	\$11,315.9
HHS	\$4,592.1	\$4,876.0
All Other Depts.	\$4,320.5	\$4,245.7
Projected Surplus	\$118.8	\$305.5
<i>JLF's Freedom Budget</i>		
Revised Availability with Tax Cuts	\$19,272.9	\$19,311.8
Revised GF Budget	\$19,033.8	\$19,300.0
Education	\$10,484.2	\$10,488.5
HHS	\$4,276.3	\$4,553.9
All Other Depts.	\$4,273.3	\$4,257.6
Projected Surplus	\$239.1	\$11.8
HIGHWAY FUND / HIGHWAY TRUST FUND		
Total HF/HTF Savings	\$483.0	\$490.6
New HF/HTF Spending	\$(550.3)	\$(549.9)
Change in Fund Balance	\$(67.3)	\$(59.3)

ABOUT THE AUTHOR

Joseph Coletti is fiscal and health care policy analyst at the John Locke Foundation. Before joining the Locke Foundation in 2005, he was Director of Policy and Communications for the U.S.-Japan Business Council in Washington, D.C. Coletti has edited newsletters and briefing books on the Japanese economy and U.S.-Japan relations. He also led research and forecasting projects with J.D. Power and Associates in Detroit and Tokyo. Coletti received a bachelor's degree from the University of Michigan in Ann Arbor and a master's degree from the Johns Hopkins University Paul H. Nitze School of Advanced International Studies in Washington, D.C.

ABOUT THE JOHN LOCKE FOUNDATION

The John Locke Foundation is a nonprofit, nonpartisan policy institute based in Raleigh. Its mission is to develop and promote solutions to the state's most critical challenges. The Locke Foundation seeks to transform state and local government through the principles of competition, innovation, personal freedom, and personal responsibility in order to strike a better balance between the public sector and private institutions of family, faith, community, and enterprise.

To pursue these goals, the Locke Foundation operates a number of programs and services to provide information and observations to legislators, policymakers, business executives, citizen activists, civic and community leaders, and the news media. These services and programs include the foundation's monthly newspaper, *Carolina Journal*; its daily news service, *CarolinaJournal.com*; its weekly e-newsletter, *Carolina Journal Weekly Report*; its quarterly newsletter, *The Locke Letter*; and regular events, conferences, and research reports on important topics facing state and local governments.

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*“To prejudge other men’s notions
before we have looked into them
is not to show their darkness
but to put out our own eyes.”*

JOHN LOCKE (1632–1704)

Author, *Two Treatises of Government* and
Fundamental Constitutions of Carolina



200 West Morgan St., #200
Raleigh, NC 27601
V: 919-828-3876
F: 919-821-5117
www.johnlocke.org
info@johnlocke.org